

CITY OF SAN DIEGO
FISCAL YEAR
2008 PROPOSED
BUDGET

Debt Obligations



Debt Obligations

Under the direction of the Chief Financial Officer, the City executes debt instruments, administers debt proceeds, manages ongoing disclosure and debt compliance, and makes debt service payments with attention to current economic conditions. Debt is an equitable means of financing projects and represents an important component of the Mayor's Five-Year Financial Outlook and the Water and Metropolitan Wastewater Departments' capital planning for meeting the City's infrastructure needs.



In addition to its current outstanding debt obligations, the City will use debt financing to meet various capital needs outlined in the Five-Year Financial Outlook. Of the \$500-\$600 million in General Fund-supported deferred maintenance and capital needs expected to be funded over the next five years, approximately \$380 million is expected to be debt financed. In Fiscal Year 2008, approximately 75 percent of an estimated \$33 million in storm drain and street maintenance expenditures is expected to be debt financed. An estimated \$500 million in capital needs for the City's Wastewater System and Water System is expected to be debt financed through 2010.

City of San Diego's existing long term debt obligations¹:

Projected Outstanding Principal as of June 30, 2007

- General Obligation Bonds: \$10.7 million
- General Fund backed Lease-Revenue Obligations: \$472.5 million
- Water and Wastewater System Obligations: \$1,751.1 million

Fiscal Year 2008 Projected Debt Service

- General Obligation Bonds: \$2.8 million
- General Fund backed lease-revenue obligations: \$43.1 million
- Water and Wastewater Enterprise Fund obligations: \$130.2 million

¹ Does not include debt obligations of City Agencies (Redevelopment Agency and Housing Authority) and Special Assessment Districts.

Debt Obligations

City of San Diego's Bond Ratings:

General Obligation Bond ratings as of March, 2007

- Moody's Investors Service: A3 Negative Outlook
- Fitch Ratings: BBB+ Rating Watch Negative
- Standard & Poor's: Suspended, Negative Credit Watch

Under the California Constitution, the City may issue General Obligation Bonds subject to the approval of two-thirds of those voting on the bond proposition. General Obligation Bonds represent an indebtedness of the City secured by its full faith and credit. An ad valorem (value-based) tax on real property is levied to pay principal and interest on General Obligation Bonds.

Lease Revenue Bonds and Certificates of Participation are lease obligations secured by an installment sale agreement or by a lease-back arrangement with a public entity, where the general operating revenues are pledged to pay the lease payments, and in turn are used to pay debt service on the bonds or Certificates of Participation. These obligations do not constitute indebtedness under the State constitutional debt limitation and, therefore, are not subject to voter approval. Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. The governmental lessee is obligated to place in its annual budget the rentals that are due and payable during each fiscal year the lessee has use of the leased property.

Revenue Bonds are payable solely from net or gross non-ad valorem tax revenues derived from General Fund revenues, tax increment revenues, rates or tolls, fees, charges or rents paid by users of the facility constructed with the proceeds of the bond issue.

Pursuant to Section 90 of the City Charter, the City may incur bonded indebtedness for the purpose of acquiring, constructing, or completing any municipal improvements, not including improvements to the City's water facilities, in an amount not to exceed 10 percent of the total assessed valuation of all real and personal property in the City subject to an annual property tax levy. The City may also incur bonded indebtedness for the purpose of acquiring, constructing, or completing water facilities in an amount not to exceed 15 percent of the total assessed valuation. The combined limit on outstanding indebtedness for both non-utility related improvements and water related improvements is an amount not to exceed 25 percent of the total assessed valuation.

Based on the assessed valuation as of July 1, 2006, the legal debt limit, as defined in Section 90 of the City Charter, was \$9.0 billion (unaudited). As of June 30, 2006, outstanding debt subject to this limit was \$12.7 million (includes both outstanding general obligation bonds).

In accordance with Section 90.1 of the City Charter, the City issues Revenue Bonds, an obligation payable from the revenues received by the utility, for the purpose of constructing water facilities, which fall outside the legal debt limit as defined in Section 90 of the City Charter. Section 90.2 authorizes the issuance of Revenue Bonds for the purpose of constructing improvements to the City's wastewater system.

The table that follows summarizes the City's projected outstanding debt as of June 30, 2007, and the projected debt/lease payment for each outstanding issuance for Fiscal Year 2008.

Debt Obligations

SUMMARY OF DEBT OBLIGATIONS

		Principal Outstanding 6/30/2007	Fiscal Year 2008 Debt/Lease Payment	Final Maturity	Primary Funding Source
GENERAL OBLIGATION BONDS					
1991	San Diego General Obligation Bonds (Public Safety Communications Project)	\$9,905,000	\$2,328,948	FY 2012	Property Tax
1994	San Diego Open Space Facilities District No. 1 Refunding Series	\$800,000	\$437,025	FY 2009	Franchise Fees
Subtotal General Obligation Bonds		\$10,705,000	\$2,765,973		
GENERAL FUND BACKED LEASE-REVENUE OBLIGATIONS					
Certificates of Participation					
1996A	Certificates of Participation Balboa Park/ Mission Bay Park Improvements Program	\$12,675,000	\$3,528,679	FY 2011	Transient Occupancy Tax
1996B	Refunding Certificates of Participation Balboa Park/Mission Bay Park Improvements Program	\$8,825,000	\$882,865	FY 2022	Transient Occupancy Tax
2003	1993 Balboa Park/Mission Bay Park Improvements Program Refunding Certificates of Participation	\$12,270,000	\$2,155,689	FY 2024 ⁽¹⁾	Transient Occupancy Tax
Lease Revenue Bonds					
1994	City/MTDB Authority Refunding - Bayside Trolley Extension	\$7,888,000	\$2,922,533	FY 2010	Transient Occupancy Tax
1996	Qualcomm (Jack Murphy) Stadium	\$59,180,000	\$5,773,203	FY 2027	Stadium Revenues & Midway/Sports Arena Leases
1998	Convention Center Expansion Authority	\$178,430,000	\$13,699,125	FY 2028	Transient Occupancy Tax & Port Authority Contribution
2002B	Fire and Life Safety Facilities Project	\$23,305,000	\$1,621,208	FY 2032	Safety Sales Tax
2003	1993 City/MTDB Authority Refunding - Old Town Trolley Extension	\$13,420,000	\$1,157,349	FY 2023	Transient Occupancy Tax
2007A	Ballpark Refunding Bonds	\$156,560,000	\$11,314,556	FY 2032	Transient Occupancy Tax
Subtotal General Fund Backed Lease-Revenue Obligations		\$472,545,000	\$43,055,207		
TOTAL GENERAL FUND OBLIGATIONS		\$483,250,000	\$45,821,180		
WASTEWATER AND WATER SYSTEM OBLIGATIONS ⁽²⁾					
Wastewater System Obligations					
1993	Sewer Revenue Bonds	\$175,330,000	\$16,318,531	FY 2023	Net Wastewater System Revenues
1995	Sewer Revenue Bonds	\$275,300,000	\$23,585,816	FY 2025	Net Wastewater System Revenues
1997	Sewer Revenue Bonds	\$202,790,000	\$16,636,223	FY 2027	Net Wastewater System Revenues
1999	Sewer Revenue Bonds	\$270,525,000	\$20,514,658	FY 2029	Net Wastewater System Revenues
2007	Est. Sewer Revenue Notes (Private Placement) ^{(3), (5)}	\$225,000,000	\$11,432,300	FY 2009	Net Wastewater System Revenues
Water System Obligations					
1998	Water Certificates of Undivided Interest	\$262,750,000	\$21,353,783	FY 2028	Net Water System Revenues
2002	Subordinated Water Revenue Bonds	\$282,365,000	\$18,031,255	FY 2032	Net Water System Revenues
2007	Subordinated Water Revenue Notes (Private Placement) ^{(4), (5)}	\$57,000,000	\$2,320,628	FY 2009	Net Water System Revenues
TOTAL WATER AND WASTEWATER SYSTEM OBLIGATIONS		\$1,751,060,000	\$130,193,193		

⁽¹⁾ The 2003 Balboa Park/Mission Bay Park Refunding Series consists of 2 underlying leases - (a) The North Course Torrey Pines lease (which terminates in FY 2009); and (b) The House of Charm lease (which terminates in FY 2024).

⁽²⁾ Does not include outstanding State Revolving Fund (SRF) loan obligations pertaining to Wastewater and Water Systems.

⁽³⁾ A private placement note in an amount not to exceed \$225 million is anticipated to be issued in early May 2007. This Note will refund the outstanding Sewer 2004 Note in an amount of \$144 million, and borrow additional funds for the Wastewater System CIP.

⁽⁴⁾ A proposed Water Revenue Bond issuance is anticipated to be issued in Fiscal Year 2008; proceeds from this issuance is expected to pay-down the outstanding 2007 Water Revenue Notes and raise funds for additional Water System CIP.

⁽⁵⁾ Interest only payments

Debt Obligations



In addition to long-term debt obligations, the City annually issues Short-Term Tax and Revenue Anticipation Notes (TRANS) in June to meet General Fund cash flow needs of the following fiscal year, in anticipation of the receipt of property tax revenues later in the fiscal year. In June 2006, the City Council approved, via Resolution R-301527, a privately placed Note Purchase Agreement with Bank of America in an amount not-to-exceed \$160 million, to meet the cash flow needs for Fiscal Year 2007. Pursuant to the actual cash flow needs, the City borrowed \$142 million on July 3, 2006 on a 13-month term. The City anticipates the issuance of a TRAN in June 2007 to meet the cash flow needs for Fiscal Year 2008. The amount to be borrowed and the associated terms are yet to be determined.

The City's Equipment and Vehicle Financing Program provides a mechanism for the short-term lease purchases of essential equipment in addition to the pay as you go basis funding. The lease purchases are typically over a three- to seven-year term.

Periodically, the City of San Diego Redevelopment Agency, Special Assessment or Community Facilities Districts, and the San Diego Housing Commission issue long-term debt.

The State Redevelopment Law gives the City of San Diego Redevelopment Agency, administered by the City's Redevelopment Division, the Centre City Development Corporation (CCDC), and the Southeastern Economic Development Corporation (SEDC), the authority to issue Tax Allocation Bonds as a means for financing redevelopment projects. The Tax Allocation Bonds are secured by allocation of tax increment revenues collected within a redevelopment project area. The bonds are special obligations of the Redevelopment Agency and are not a debt of the City, the State, or any of their political subdivisions other than the Redevelopment Agency.

In addition to the long-term bond issuances, the City and the City of San Diego Redevelopment Agency have outstanding Housing and Urban Development loan obligations to be repaid from the future Community Development Block Grant entitlements and other sources of revenues.

Under various sections of State law, the City may establish Special Assessment or Community Facilities (Mello-Roos) Districts and issue limited obligation bonds to finance infrastructure facilities and other public improvements necessary to facilitate development of the properties within each district. The bonds are secured solely by the properties in the district, and are not personal obligations of the property owners. The bonds are repaid through revenues generated by the annual levy of special assessments or special taxes on the benefiting properties.

Debt Obligations

The San Diego Housing Commission's Multifamily Bond Program administers multifamily tax-exempt financing for various projects. By utilizing the tax exempt interest income earned from municipal bonds, the Multifamily Bond Program offers below market financing to developers of multi-family rental projects that set aside a portion of the units in their projects as affordable housing. Activities eligible for financing include new construction, acquisition, and rehabilitation of projects located in the City. The bonds do not constitute a debt or liability of the City, the Housing Authority, or the Housing Commission. The security for bond repayment is limited to specific private revenue sources, such as project revenues, guaranteed by the credit provider, or the value of the projects themselves. The program is self-supporting and the developers are responsible for paying the costs associated with each financing agreement.

